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**HF 697** – Omnibus Appropriations Bill - Taxation Amendment (LSB2811\_H1735)  
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Fiscal Note Version – New

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**Description**

Amendment **H-1735** to **House File 697** includes the following:

- Increases the school aid formula regular program foundation level beginning in FY 2014. The foundation level increase will be phased in by 0.5% per year until the percentage reaches 90.0% in FY 2018. The current foundation level is 87.5%.
- Changes assessment limitations for residential, agriculture, commercial, and industrial classes of property. The proposal reduces the rollback growth limitation for residential and agriculture classes of property from a maximum percentage of 4.0% to 2.0% for each year. Additionally, the amendment phases in a rollback for the commercial, industrial, and railroad classification of properties. The phase-in begins in assessment year 2012 (impacting FY 2014) with a rollback percentage of 95.0%, and applies an annual reduction of 5.0% until the rollback reaches 75.0% in assessment year 2016 (FY 2018).
- Creates the Commercial and Industrial Property Tax Replacement Fund that includes an initial appropriation of \$30.0 million in FY 2014 and increases by \$30.0 million each fiscal year until it is capped at \$150.0 million in FY 2018 and future fiscal years. The Fund will pay replacement claims to cities and counties due to the reduction of commercial and industrial valuation due to the rollback. The amendment specifies the mechanism for the replacement claim process and requires that any remaining funds from the appropriation for replacement claims be transferred to the Taxpayers Trust Fund.
- Requires the Ways and Means Committees in the House and the Senate to annually review implementation and fiscal impact of the commercial, industrial, and railroad rollback provision.
- Eliminates property tax levy rate limitations on county general and rural funds and city general funds. These levy rate limitations are replaced by a limitation on the maximum amount of property tax dollars certified for expenditure by a city or county beginning in FY 2013. Growth in these property tax amounts will be limited based on the Midwest Consumer Price Index and the amount of any new net valuation as specified in the Division.
- Revenue adjustments include the following:
  - Increases Iowa's Earned Income Tax Credit, currently equal to 7.5% of the federal credit amount, to 10.0% of the federal amount. The change is effective tax year 2011.
  - Increases the annual limit for School Tuition Tax Credits, currently equal to \$7.5 million per tax year, to \$8.75 million in tax year 2012 and \$10.0 million for tax years 2013 and after.
  - Couples retroactively with three federal tax changes. The changes relate to teacher expense, qualified higher education expense, and Iowa sales/use tax deductions. Taxpayers are allowed to take advantage of the Iowa law changes on tax year 2011 tax returns in lieu of filing amended returns for the impacted tax years.
  - Clarifies that Targeted Jobs Withholding Agreements may include tax benefits for retained as well as new jobs.

- Couples retroactively with the federal Heartland Disaster Relief Act of 2008. This allows taxpayers to deduct additional disaster losses from Iowa income tax if the losses meet qualifications under federal tax law.

### **Assumptions**

- Increasing the school aid formula regular program foundation level will increase the amount of State aid and reduce the amount of local property tax. The Legislative Services Agency is assuming a 0.0% allowable growth rate for FY 2012 and 2.0% allowable growth rates for FY 2013 through FY 2018. Additionally, current enrollment projections and weighting assumptions are used in the estimate.
- Based on LSA estimates, the following table provides rollback amounts and the total taxable valuation growth under the current law and the proposal in [H-1735](#). Under current law, statewide taxable valuations are estimated to increase by 24.7% between assessment years 2011 and 2016. Statewide taxable valuations are estimated to grow 10.7% over that same time period based on the proposal.

Legislative Services Agency: Proposal Impact on Taxable Valuations									
		Current Law Estimates				Proposal Estimates			
Assessment Year	Fiscal Year	Total Taxable Valuation (in Millions)	Residential Rollback	Ag. Rollback	Comm/Ind. Rollback	Total Taxable Valuation (in Millions)	Residential Rollback	Ag. Rollback	Comm/Ind. Rollback
2011	2013	\$ 144,158.3	50.5%	57.4%	100.0%	\$ 144,158.3	50.5%	57.4%	100.0%
2012	2014	149,705.0	52.5%	59.7%	100.0%	145,696.9	51.5%	58.6%	95.0%
2013	2015	156,749.0	53.3%	55.5%	100.0%	148,934.5	51.2%	53.3%	90.0%
2014	2016	163,799.6	55.4%	57.7%	100.0%	152,914.6	52.3%	54.4%	85.0%
2015	2017	171,890.5	55.9%	54.5%	100.0%	157,146.2	51.7%	50.4%	80.0%
2016	2018	179,721.1	58.2%	56.7%	100.0%	159,551.4	52.8%	51.5%	75.0%

- The state General Fund will replace the school district uniform levy amount as a result of any reduction in valuation compared to current law. This replacement is done through the normal operations of the school aid formula. The School Foundation uniform levy rate is \$5.40 per \$1,000 of taxable valuation.
- Revenue adjustment assumptions:
  - Due to the timing of the changes, there will be no FY 2011 impact for any of the changes.
  - The change to the Targeted Withholding Agreement language is a clarification of current practice.
  - The changes related to teacher expense, qualified higher education expense, Iowa sales/use tax deduction, and the disaster-related loss deduction, impact FY 2012 in two ways:
    - Taxpayers that filed correctly under current Iowa tax law will file amended returns to receive the new benefit and will receive tax refunds from the state.
    - Taxpayers that claimed the deductions on previously filed returns will be required by the Department of Revenue to pay back taxes to the State, without the changes made in this amendment. The changes will remove the back tax obligation and reduce FY 2012 General Fund accounts receivable revenue.

## Fiscal Impact

### Overall Estimated General Fund Fiscal Impact

Amendment [H-1735](#) will increase state General Fund expenditures due to the increase in the school aid foundation level, replacement of uniform levy funds due to an estimated reduction in taxable valuation compared to current law, and standing General Fund appropriations that will be used for claim replacements. The following table provides the estimated increase in General Fund expenditures between FY 2012 and FY 2018. The LSA estimates that FY 2014 will require a General Fund expenditure increase of \$67.1 million as a result of the Amendment. The amount will increase annually and will require a total General Fund expenditure increase of \$347.1 million by FY 2018. The last column in the table provides the annual General Fund expenditure increase as a result of [H-1735](#).

Assessment Year	Fiscal Year	School Aid Foundation Level Percentage	Foundation Level Increase*	Uniform Levy Replacement due to Valuation Growth Limitations	Commercial, Industrial, Railroad Valuation Rollback Percentage	Claim Replacement Appropriation Amounts	Estimated Total General Fund Expenditure Impact	Estimated Annual General Fund Expenditure Change
AY 2010	FY 2012	87.50%	\$ 0.0	\$ 0.0	100.00%	\$ 0.0	\$ 0.0	
AY 2011	FY 2013	87.50%	0.0	0.0	100.00%	0.0	0.0	\$ 0.0
AY 2012	FY 2014	88.00%	16.8	20.2	95.00%	30.0	67.1	67.1
AY 2013	FY 2015	88.50%	35.2	39.5	90.00%	60.0	134.7	67.6
AY 2014	FY 2016	89.00%	55.1	55.0	85.00%	90.0	200.0	65.3
AY 2015	FY 2017	89.50%	74.6	74.4	80.00%	120.0	269.0	69.0
AY 2016	FY 2018	90.00%	95.2	101.8	75.00%	150.0	347.1	78.0

Additionally, the changes to Iowa tax law contained in [H-1735](#) are projected to reduce net General Fund revenue by the amounts in the following table.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Earned Income Tax Credit	\$ 0.0	\$ -14.8	\$ -13.7	\$ -11.5	\$ -11.6
School Tuition Organizations	0	0	-0.9	-2.1	-2.3
Federal Extenders - Refunds	0	-1.5	0	0	0
Federal Extenders - Accounts Receivable	0	-8.4	0	0	0
Special Filing Provisions	0	0	0	0	0
Withholding Agreements	0	0	0	0	0
Disaster-Related - Refunds	0	-0.9	0	0	0
Disaster-Related - Accounts Receivable	0	-3.8	0	0	0
	\$ 0.0	\$ -29.4	\$ -14.6	\$ -13.6	\$ -13.9

Summary - The total estimated fiscal impact is reflected in the table below:

<b>Overall General Fund Impact</b>							
In millions of dollars							
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Revenue Reduction	\$ 29.4	\$ 14.6	\$ 13.6	\$ 13.9	\$ 13.9	\$ 13.9	\$ 13.9
Expenditure Increase	0.0	0.0	67.1	134.7	200.0	269.0	347.1
Total Reduction to the General Fund	\$ 29.4	\$ 14.6	\$ 80.7	\$ 148.6	\$ 213.9	\$ 282.9	\$ 361.0

**Sources**

Iowa Department of Management, School Aid and Taxable Valuations files  
Iowa Department of Revenue  
LSA analysis and calculations

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June 7, 2011

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This fiscal note was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request

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